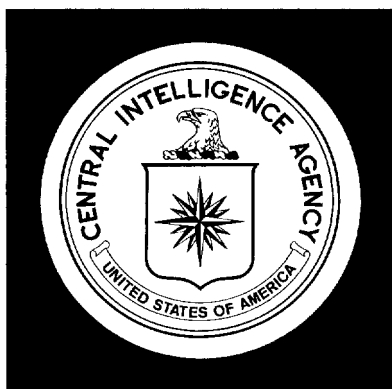
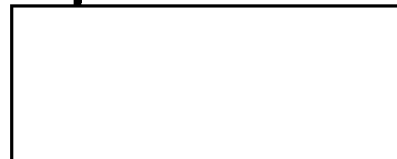


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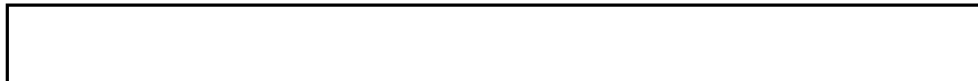
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CHILE: President Allende has increased his effort to defuse the tense political situation, and speculation in Santiago now centers on the possibility that the military will again be represented in the cabinet.

Most businesses and professional guilds reportedly have postponed their nationwide strike, but the [redacted] may persist in its plan for a walkout. Workers still occupy the industries they seized on 29 June, and the military and police are continuing their search for illegal arms. Allende will soon face a congressional inquiry into charges that the congressional elections last March were tainted by massive electoral fraud.

The armed forces remain deeply troubled by the nation's plight. The feeling is spreading that something must be done, but most ranking officers still appear to believe that it would be better to work through the present government than to risk trying to overthrow it.

Allende since last Thursday has been holding meetings with the three service commanders and with Popular Unity leaders. He may be groping for a formula for getting the military back into the cabinet that would satisfy both the armed forces and his own supporters. However, as long as the military insists on real power and the Communists and Socialists remain reluctant to share it, this formula will remain elusive.

Nevertheless, the time could be right for compromise. None of the major political forces--the government and its civilian supporters, the military, and the civilian opposition--seems confident of prevailing in the current war of nerves or in an armed confrontation. A political truce may look more and more like a welcome respite to all sides. The Christian Democrats, for example, may be ready to agree to the dialogue sought by Allende if the military re-enters the cabinet. [redacted]

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CHINA: Last year's disappointing harvest has caused political repercussions in the Chinese leadership.

Vice Premier Li Fu-chun, at one time a leading economic planner, reportedly apologized late last year for overestimating China's industrial growth rate.

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In the wake of last year's subnormal harvest, Peking has taken steps to shift more manpower to agriculture. It imposed a stiff 5-percent ceiling on the number of workers in the countryside allowed to do nonfarming work, reportedly instituted a freeze on the hiring of urban factory workers, and sharply accelerated the campaign to send city youth to work in agriculture.

These moves probably resulted from concern over current harvest prospects rather than from any miscalculation by Li Fu-chun. Adverse weather conditions were the primary reason for last year's shortfall, and no planner can program natural calamities. Additional manpower will improve harvest prospects somewhat this year, but ultimately weather is the single most important factor.

The aging Li Fu-chun has not been active in recent years. By accepting the blame, however, Li deflects criticism from others more directly involved in managing the economy and satisfies the need for a scapegoat. He was replaced as chief planner last fall by Yu Chiu-li; both have been close associates of Chou En-lai. Despite the disclosure of Li's confession, as a party elder he probably will retain his central committee membership at the coming party congress.

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EC-SPAIN: The talks last week between the European Communities and Spain over the latter's link with the enlarged EC settled on an objective for a free-trade agreement, but the two sides remain far apart on the treatment of agricultural products and the timing of the overall arrangement.

The EC proposed that trade restrictions on industrial products be ended by 1977 and that import restrictions on other products, primarily agricultural, be phased out over a longer period. The Spaniards, however, want the community to step up the pace of freeing agricultural trade while permitting Spain to slow down its tariff reductions for industrial products.

The two sides will resume negotiations in late September. Despite the wide differences separating the two sides, Madrid seems optimistic that the community will make enough concessions on Spanish agricultural exports to allow Spain to qualify as a free-trade area under the General Agreement on Tariffs and Trade (GATT). If the EC preferential arrangements were to encompass most of the trade in industrial and agricultural products, US objections to them on grounds of incompatibility with GATT would be more difficult to sustain.

The discussions with Spain are the first in a series of negotiations beginning this summer in which the EC intends to develop its so-called Mediterranean policy. The first round has also been concluded with Israel, which also finds fault with the community's major offers on agriculture. Talks between the EC and the Maghreb countries are scheduled for later this summer.

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FRANCE-USSR: During his visit to Moscow on 26-28 July, Foreign Minister Jobert expects to round out the tour d'horizon he began with Gromyko during Brezhnev's summit meeting in Paris last month.

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Jobert in particular will discuss the Soviet draft of the "main final document" presented at the CSCE ministerial in Helsinki and other aspects of Soviet views on European security. Talks on bilateral issues will focus on scientific and technical co-operation; Jobert will sign a ten-year accord providing for such exchanges.

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JAPAN: In response to pressing demands from several countries, Tokyo has decided to increase sharply exports from its surplus rice stock during the year ending next March. The Japanese are sending 150,000 tons to South Korea and 100,000 tons to Bangladesh, and the Ministry of Agriculture in Tokyo has announced that another 260,000 tons will go to Indonesia, the Philippines, Cambodia, and the Malagasy Republic. Having already committed most of its stock allocated for export, Tokyo will draw on some special food stores that had been set aside for use during 1974-76. [REDACTED]

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IRAN-JORDAN-TUNISIA: Tehran's latest display of support for the Arab moderates includes loans of \$5 million each to Jordan and Tunisia. The Shah wants better relations with Husayn and Bourguiba, both leaders of conservative Arab states, in order to extend his influence in the Middle East. Husayn in particular will welcome the loan because he has been under pressure from some Arabs to revise his strong anti-fedayeen position in return for financial assistance. [REDACTED]

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